

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Betsie Lake Utilities Authority	County Benzie
Fiscal Year End June 30, 2006	Opinion Date July 28, 2006	Date Audit Report Submitted to State November 3, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma		License Number 1101024989

BETSIE LAKE UTILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS

June 30, 2006

BETSIE LAKE UTILITIES AUTHORITY

APPOINTED OFFICIALS

AUTHORITY CHAIRMAN

DAN VALENTA

AUTHORITY SECRETARY

KURT LUEDTKE

AUTHORITY TRUSTEE

THOMAS ZATKOVIC

AUTHORITY TRUSTEE

KENNETH HOLMES

AUTHORITY TRUSTEE

JIM GILBERT

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Betsie Lake Utilities Authority
Frankfort, Michigan 49635

We have audited the accompanying financial statements of the business-type activities, of the Betsie Lake Utilities Authority as of and for June 30, 2006 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Betsie Lake Utilities Authority as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2006 on our consideration of the Betsie Lake Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.



Anderson, Tackman & Company, PLC
Certified Public Accountants

July 28, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority as a Whole

The Authority's net assets increased 14% from a year ago increasing from \$1,511,153 to \$1,724,541. This is primarily due to the Authority increasing its service area thus increasing revenues in 2006.

In a condensed format, the table below shows the net assets of Betsie Lake Utilities Authority.

	Business-Type Activities <u>2006</u>	Business-Type Activities <u>2005</u>
Current Assets	\$ 1,057,749	\$ 381,334
Capital Assets	<u>2,477,789</u>	<u>2,990,176</u>
Total Assets	<u>3,535,538</u>	<u>3,371,510</u>
Current Liabilities	90,997	45,357
Long-Term Liabilities	<u>1,720,000</u>	<u>1,815,000</u>
Total Liabilities	<u>1,810,997</u>	<u>1,860,357</u>
Net Assets		
Invested in Capital Assets -		
Net of Debt	707,789	771,780
Unrestricted (Deficit)	<u>1,016,752</u>	<u>739,373</u>
Total Net Assets	<u>\$ 1,724,541</u>	<u>\$ 1,511,153</u>

The current level of unrestricted net assets for our business-type activities stands at \$1,016,752, or about 170% of expenses. This is within the targeted range set by the Authority's Board of Directors during its last budget process.

The following table shows the activities of the Authority.

	<u>Business-Type Activities 2006</u>	<u>Business-Type Activities 2005</u>
Revenues		
Charges for Services	\$ 625,541	\$ 548,557
Interest and Other	<u>151,025</u>	<u>154,192</u>
Total Revenues	<u>776,566</u>	<u>702,749</u>
Expenses		
Operations	391,787	392,112
Interest Expense	91,721	93,484
Depreciation Expense	<u>115,149</u>	<u>116,996</u>
Total Expenses	<u>598,657</u>	<u>602,592</u>
Changes in Net Assets	<u>177,909</u>	<u>100,157</u>
Net Assets – Beginning	1,511,153	1,410,996
Prior Period Adjustment	<u>35,479</u>	<u>-</u>
Net Assets – Beginning – Restated	<u>1,546,632</u>	<u>1,410,996</u>
Net Assets – Ending	<u>\$ 1,724,541</u>	<u>\$ 1,511,153</u>

Business-Type Activities

The Authority's total business-type revenues increased by approximately \$73,547, primarily due to the increase in service area in 2006.

Expenses decreased by only about \$3,935 during the year. This was primarily the result of close budget monitoring throughout the year.

Capital Asset and Debt Administration

At the end of 2006, the Authority had \$2,477,789 invested in a broad range of capital assets, including storage buildings, machinery and equipment, and sewer lines.

The Authority reduced its bond debt load by \$45,000 in principal payments in fiscal year 2006 ending with a debt balance of \$1,770,000.

Economic Factors and Next Year's Budgets and Rates

A direct reflection of a soft economy, the Authority's 2006 budget will be tight essentially a "hold the line" document when compared to the 2005 program.

Insurance costs continue to increase.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority at (231) 352-9804.

Basic Financial Statements

Betsie Lake Utilities Authority

Statement of Net Assets June 30, 2006

ASSETS:

Current Assets

Cash and Equivalents - Unrestricted	\$ 617,796
- Restricted	291,387
Accounts Receivable	78,596
Inventory	63,439
Prepaid Expenses	<u>6,531</u>

TOTAL CURRENT ASSETS 1,057,749

Capital Assets

Property and Equipment, (Net of Accumulated Depreciation)	<u>2,477,789</u>
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TOTAL ASSETS \$ 3,535,538

LIABILITIES AND NET ASSETS:

Current Liabilities

Account Payable	\$ 10,048
Current Portion of Bonds Payable	50,000
Accrued Payroll and Related Liabilities	747
Accrued Interest on Debt	<u>30,202</u>

TOTAL CURRENT LIABILITIES 90,997

Long-Term Liabilities

Bonds Payable – Long-Term Portion	<u>1,720,000</u>
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TOTAL LIABILITIES 1,810,997

Net Assets

Investment in Capital Assets (Net of Debt)	707,789
Unrestricted	<u>1,016,752</u>

TOTAL NET ASSETS 1,724,541

TOTAL LIABILITIES AND NET ASSETS \$ 3,535,538

The accompanying notes are an integral part of these financial statements.

Betsie Lake Utilities Authority

Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2006

OPERATING REVENUE:

Charges for Services – Users	\$ 615,154
Miscellaneous	<u>10,387</u>
TOTAL OPERATING REVENUES	<u>625,541</u>

OPERATING EXPENSES:

Wages and Fringes	160,930
Payroll Taxes	1,051
Supplies	35,490
Professional Services	19,637
Contracted Services	37,140
Vehicle Expense	1,304
Insurance	11,065
Repairs and Maintenance	78,830
Utilities	38,713
Miscellaneous	<u>7,627</u>
TOTAL OPERATING EXPENSES BEFORE DEPRECIATION	<u>391,787</u>

Operating Income (Loss) Before Depreciation	233,754
Less Depreciation	<u>(115,149)</u>

TOTAL OPERATING INCOME (LOSS)	<u>118,605</u>
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NON-OPERATING INCOME (EXPENSE):

Interest Earnings	12,881
Local Contributions	138,144
Interest Expense – Long-Term Debt	<u>(91,721)</u>

Net Non-Operating Income (Expense)	<u>59,304</u>
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Changes in Net Assets	<u>177,909</u>
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NET ASSETS, JULY 1	1,511,153
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Prior Period Adjustment	<u>35,479</u>
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NET ASSETS, JULY 1 – RESTATED	<u>1,546,632</u>
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NET ASSETS, JUNE 30	<u>\$ 1,724,541</u>
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The accompanying notes are an integral part of these financial statements.

Betsie Lake Utilities Authority

Statement of Cash Flows Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers	\$ 595,012
Payments to Employees	(161,981)
Payments to Suppliers	(225,383)
Net Cash Provided (Used) by Operating Activities	<u>207,648</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Local Contributions	<u>138,144</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>138,144</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of Capital Assets (net)	(5,125)
Interest Paid on Bonds	(91,721)
Principal paid on Bonds	(45,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(141,846)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Investments	<u>12,881</u>
Net Cash Provided (Used) by Investing Activities	<u>12,881</u>
Net Cash Provided (Used) - All Activities	216,827
Cash and Cash Equivalents at Beginning of the Year	<u>692,356</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 909,183</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (loss)	\$ 118,605
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	115,149
Gain on Capital Assets	(1,033)
Change in Assets and Liabilities:	
Account Receivable	(20,713)
Accrued Liabilities	747
Account Payable	(4,423)
Accrued Interest	(684)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 207,648</u></u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Betsie Lake Utilities Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

A – Reporting Entity:

Financial Reporting Entity

The financial statements of the Authority include the following operation: Betsie Lake Utilities Authority is organized to construct, maintain, and manage a sewage disposal system for the City of Frankfort and the Village of Elberta.

The Authority is a separate public municipal authority incorporated by the City of Frankfort and the Village of Elberta, pursuant to the Joint Sewage and Water Authority Act, Act 233, Public Acts of Michigan, 1955, as amended, for the purpose of acquiring, owning, improving, enlarging, extending, operating, and financing a sewage disposal system or a water supply system or both on behalf of its incorporating municipalities and to provide water or sewage disposal services to area municipalities. The Betsie Lake Utilities Authority is governed by a five member board, which is comprised of two Commissioners from the City of Frankfort and two Commissioners from the Village of Elberta. The last Commissioner is approved by the four board members. The Commissioners are appointed by the City Mayor and Village President with the advice and consent of the governing body of said City and Village.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sewage disposal. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Inventories and Prepaid Items – All inventories, including the cost of supplies are recorded as assets when purchased and are expensed when used. Expenses for insurance and similar services that benefit future periods are recorded as prepaid expenses.

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., sewer lines and similar items) are reported in financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Sewer System	40 years
Machinery & Equipment	5-10 years
Storage Buildings	15 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in business-type activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND EQUIVALENTS:

Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

<u>Balance Sheet Account</u>		<u>Cash Items</u>	
Cash and Equivalents - Unrestricted	\$ 617,796	Petty	\$ 300
- Restricted	291,387	Checking & Savings	22,490
		Money Markets	273,424
		Certificates of Deposit	612,969
	<u>\$ 909,183</u>		<u>\$ 909,183</u>

\$291,387 of the Authority's cash is restricted for bond retirement.

Interest rate risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$559,857 of the Authority's bank balance of \$901,782 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS:

Capital Asset activity for the Authority for the current year was as follows:

	<u>Balance 07/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/05</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 114,199	\$ -	\$ -	\$ 114,199
Subtotal	<u>114,199</u>	<u>-</u>	<u>-</u>	<u>114,199</u>
Capital assets being depreciated:				
Building & Landscaping	3,044,101	1,033	-	3,045,134
Sewer System	397,543	-	-	397,543
Vehicles	12,685	-	-	12,685
Equipment	<u>15,531</u>	<u>5,125</u>	<u>-</u>	<u>20,656</u>
Subtotal	<u>3,469,860</u>	<u>6,158</u>	<u>-</u>	<u>3,476,018</u>

Betsie Lake Utilities Authority

Notes to Financial Statements June 30, 2006

NOTE 3 - CAPITAL ASSETS: (Continued)

	Balance 07/01/05	Increases	Decreases	Balance 06/30/05
Business-Type Activities:				
Less accumulated depreciation for:				
Building	(749,688)	(101,121)	-	(850,809)
Sewer System	(227,018)	-	-	(227,018)
Vehicles	(12,685)	-	-	(12,685)
Equipment	(7,888)	(14,028)	-	(21,916)
Subtotal	(997,279)	(115,149)	-	(1,112,428)
Net Capital Assets being Depreciated	2,472,581	(108,991)	-	2,363,590
Business Capital Total				
Capital Assets – Net of Depreciation	<u>\$ 2,586,780</u>	<u>\$ (108,991)</u>	<u>\$ -</u>	<u>\$ 2,477,789</u>

NOTE 4 - LONG-TERM DEBT:

On March 1, 1989, the Betsie Lake Utilities Authority was authorized to borrow \$2,310,000 in revenue bonds from the Farmers Home Administration for construction of the sewer system. The debt borrowed against this allowance was \$2,157,000. On February 1, 1999, Betsie Lake Utilities Authority was authorized to refund these revenue bonds with an issuance of \$2,040,000 in revenue refunding bonds, Series 1999, of which \$95,000 are Serial Bonds with an interest rate of 5% through March 1, 2000; 5.15% from 2000 through 2023; 5.20% from 2024 through 2028; and with \$1,090,000 of 5% term bonds due March 1, 2019. Costs of funding were capitalized as a part of the sewage system.

The following is a summary of the long-term debt transactions of the Authority for the year ended June 30, 2006.

Balance at July 1, 2005	\$ 1,815,000
Long-term debt retired	<u>(45,000)</u>
Balance at June 30, 2006	1,770,000
Less: Current Portion	<u>50,000</u>
Long-Term Portion	<u>\$ 1,720,000</u>

NOTE 4 - LONG-TERM DEBT: (Continued)

Maturities of principal and interest over the remaining life of the bonds payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 50,000	\$ 90,155	\$ 140,155
2008	50,000	87,655	137,655
2009	50,000	85,155	135,155
2010	55,000	82,655	137,655
2011	60,000	79,905	139,905
2011-2016	335,000	352,775	687,775
2016-2021	430,000	259,640	689,640
2021-2026	555,000	137,645	692,645
2026-2028	<u>185,000</u>	<u>12,840</u>	<u>197,840</u>
Total	<u>\$ 1,770,000</u>	<u>\$ 1,188,425</u>	<u>\$ 2,958,425</u>

NOTE 5 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, and worker's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of coverage in any of the past three fiscal years.

NOTE 6 - PRIOR PERIOD ADJUSTMENT:

In 2006, the beginning net assets of the Authority had to be restated to account for an increase in the recorded value of inventory. The adjustment amounted to \$35,749.

NOTE 7 - RELATED PARTIES:

The Betsie Lake Utilities Authority was created by the City of Frankfort and the Village of Elberta to provide sewer services for the two municipalities. The two units bill and collect charges to the public for private use of the system. The Authority in turn bills the municipalities for use and debt service fees. The two municipalities are ultimately responsible for the operation and debt of the Authority.

NOTE 8 - PENSION BENEFITS:

The only pension available is a Plan to which the Board contributes a fixed amount to each SEP each year. This amount is determined annually at the discretion of the Board and is not a defined benefit or defined contribution plan.

NOTE 9 - POST RETIREMENT HEALTH CARE BENEFITS:

In addition to the pension benefits, the Authority provides post employment health care insurance benefits to employees. The Authority pays premiums according to its policy. Currently one employee is eligible to receive benefits. During the fiscal year end June 30, 2006, expenditures of \$14,503 were recognized for post employment benefits.

Reports on Compliance



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Betsie Lake Utilities Authority
Frankfort, Michigan 49635

We have audited the financial statements of the business-type activities of the Betsie Lake Utilities Authority, as of and for June 30, 2006, and have issued our report thereon, dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Betsie Lake Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Betsie Lake Utilities Authority in a separate letter dated July 28, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Betsie Lake Utilities Authority's financial statements are free of material misstatement, we performed a test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We did note certain matters that we reported to management of the Betsie Lake Utilities Authority in a separate letter dated July 28, 2006.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

July 28, 2006

Additional Information

BETSIE LAKE UTILITIES AUTHORITY

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Board of Directors
Betsie Lake Utilities Authority
Frankfort, Michigan 49635

Our report on our audit of the basic financial statements of the Betsie Lake Utilities Authority as of and for the year ended June 30, 2006, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

July 28, 2006

**NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES
REQUIREMENTS:**

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2006, the Authority has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 1999 the Authority agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utilities Authority which applies to SEC Rule 15c2-12.

1. \$2,040,000 Sewage Disposal System Revenue Refunding Bonds, Series 1999.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Local Unit Sewage Disposal Service Charges (per 1,000 gallons):

<u>Fiscal Year Ended June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>	<u>Glens</u>
2006	1.90	1.90	30

Source: Betsie Lake Utilities Authority

B. Metered Water Flow by User:

<u>Fiscal Year Ended or Ending June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>
2006	81.483	23.873

Source: Betsie Lake Utilities Authority

C. Percentage Waste Water Flow by User:

<u>Fiscal Year Ended or Ending June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>
2006	77.341%	22.659%

Source: Betsie Lake Utilities Authority

D. Waste Water Revenue by User:

<u>Fiscal Year Ended June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>	<u>Glens</u>	<u>Septage</u>
2006	\$ 154,818	\$ 45,359	\$ 281,081	\$ 116,990

E. Percentage of Waste Water Revenue by User:

<u>Fiscal Year Ended June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>	<u>Glens</u>	<u>Septage</u>
2006	25.88%	7.58%	46.98%	19.56%

F. Total Average and Total Average Peak Daily Sewage Disposal Treatment Volume:

<u>Total Average Sewage Disposal Treatment Volume</u>				
<u>Fiscal Year Ended June 30</u>	<u>City of Frankfort</u>	<u>Village of Elberta</u>	<u>Glens</u>	<u>Septage</u>
2006	6.79	19.89	.85	1.105
<u>Total Average Peak Daily Sewage Disposal Treatment Volume</u>				
	<u>City of Frankfort</u>	<u>Village of Elberta</u>		
	.395	.111		

G. Debt Statement:

Refer to Note 4 in the Basic Financial Statements.



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REPORT TO MANAGEMENT

Board of Directors
Betsie Lake Utilities Authority
Frankfort, Michigan 49635

We have audited the financial statements of the Betsie Lake Utilities Authority for the year ended June 30, 2006, and have issued our report thereon dated July 28, 2006. Professional standards require that we provide; you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Betsie Lake Utilities Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Betsie Lake Utilities Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Betsie Lake Utilities Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Betsie Lake Utilities Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Betsie Lake Utilities Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Betsie Lake Utilities Authority, either individually or in the aggregate indicate matters that could have a significant effect on the Betsie Lake Utilities Authority's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Betsie Lake Utilities Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Betsie Lake Utilities Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Policy Manual

We encourage the Board to continue to develop and adopt appropriate policies for procurement, investments, credit card usage, etc., in order to achieve compliance with federal and state requirements.

Capitalization Policy

GABS 34 requires that the Board adopt a capitalization threshold for depreciation of capital assets and infrastructure. The Board currently capitalizes assets above \$1,500; however, this amount should be authorized by Board Policy.

Board Minutes

During our review of board meeting minutes, it was noted that authorization for certain financial transactions were not mentioned. Events such as opening/closing banks, financing and capital asset purchases should be approved by the board. The Board minutes should reflect these decisions.

Inventory

The Authority did not have a completed listing of inventory on hand at year end as is required by generally accepted accounting principles. Management was able to provide an inventory during the audit. We recommend that the listing be updated monthly and that the amount on the general ledger be adjusted to equal that balance.

Payroll

It was noted there were no time sheets completed and retained. It is recommended that time sheets be completed, retained, and signed by the proper person.

It was also noted that W-4 and I-9 forms are not completed and retained in employee files. It is recommended that these forms be completed and retained in the future.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, which requires the Authority implement the Statement for the year ended June 30, 2008. GASB Statement 45 impacts the future accounting of post-employment health insurance costs as it relates to the amount the Authority will be required to fund these benefits. The Authority will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management and the Board of Directors of Betsie Lake Utilities Authority, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

July 28, 2006